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STANDING COMMITTEE ON CHEMICALS & FERTILIZERS (2014-15)

MINISTRY OF CHEMICALS AND FERTILIZERS (DEPARTMENT OF FERTILIZERS)

DEMANDS FOR GRANTS (2014-2015)

[Action Taken by the Government on the Observations/Recommendations contained in the Third Report of the Standing Committee on Chemicals and Fertilizers (Sixteenth Lok Sabha) on Demands for Grants (2014-2015) of the Ministry of Chemicals and Fertilizers (Department of Fertilizers)]

EIGHTH REPORT

LOK SABHA SECRETARIAT
NEW DELHI

22 July, 2015 / 31 Ashadha 1935, (Saka)

CC&F No. - 8

REPORT

STANDING COMMITTEE ON CHEMICALS AND FERTILIZERS (2014-15)

SIXTEENTH LOK SABHA

MINISTRY OF CHEMICALS AND FERTILIZERS (DEPARTMENT OF FERTILIZERS)

DEMANDS FOR GRANTS (2014-2015)

[Action Taken by the Government on the Observations/Recommendations contained in the Third Report of the Standing Committee on Chemicals and Fertilizers (Sixteenth Lok Sabha) on Demands for Grants (2014-2015) of the Ministry of Chemicals and Fertilizers (Department of Fertilizers)]

Presented to Lok Sabha on 22.07.2015

Laid in Rajya Sabha on 22.07.2015

LOK SABHA SECRETARIAT
NEW DELHI

22 July, 2015 / 31 Ashadha 1935, (Saka)

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COMPOSITION OF THE STANDING COMMITTEE ON CHEMICALS & FERTILIZERS (2013-14)

Shri Anandrao Adsul - Chairperson	
MEMBERS	
LOK SABHA	
2.	Shri Idris Ali
3.	Smt. Anju Bala
4.	Shri B.N Chandrappa
5.	ShriSankar Prasad Datta
6.	Smt. Veena Devi
7.	Shri R. Dhruvanarayana
8.	Shri Satish Kumar Gautam
9.	Shri K Ashok Kumar
10.	Shri Kamalbhan Singh Marabi
11.	ShriChhediPaswan
12.	Smt. Kamala Devi Patle
13.	Shri Rajendran S
14.	Shri ChanduLal Sahu
15.	Dr. Kulamani Samal
16.	Dr. Uma Saren
17.	Dr. Krishan Pratap Singh
18.	Shri Taslimuddin
19.	Smt. Rekha Arun Verma
20.*	Shri Innocent
21.*	ShriKotha Prabhakar Reddy
RAJYA SABHA	
22.	Shri Biswajit Daimary
23.	Dr. MS Gill
24.	Shri Sanjay Dattatraya Kakade
25.	Shri Narayan LalPanchariya
26.	Shri K Parasaran
27.	Shri Garikapati Mohan Rao
28.	Dr. Sanjay Sinh
29.*	Shri Palvai Govardhan Reddy
30.%	Shri Mansukh L. Mandaviya
31.$	Vacant

SECRETARIAT

1.	Smt Rashmi Jain	-	Joint Secretary
2.	Shri U.B.S. Negi	-	Director
3.	Shri Anil Kumar Srivastava	-	Additional Director
4.	Shri Nishant Mehra	-	Under Secretary

Changed the nomination of ShriMurliDeora, Member of RajyaSabha from the Committee on Chemicals and Fertilizers to the Committee on External Affairs w.e.f. 25-09-2014.

** ShriPalvaiGovardhan Reddy, Member of RajyaSabha nominated w.e.f. 08-10-2014*

Shri Mohanbhai KalyanjibhaiKundariya Nominated as Minister of State w.e.f. 09.11.2014

The term of ShriBrijlalKhabri, MP (RS) has expire w.e.f. 25.11.2014

Changed the nomination of Adv. Joice George, Member of LokSabha from the Committee on Chemicals and Fertilizers to the Personnel, Public Grievances, Law and Justice w.e.f. 24-12-2014.

**Shri Innocent, and ShriKothaPrabhakar Reddy, Member of LokSabhanominated w.e.f. 22-12-2014*

% ShriMansukh L. Mandaviya, Member of RajyaSabha nominated w.e.f. 31-12-2014

% Dr. Chandrapal Singh Yadav, Member of RajyaSabha nominated w.e.f. 29.01.2015

$Changed the nomination of Dr. Chandrapal Singh Yadav, Member of Rajya Sabha from the Committee on Chemicals and Fertilizers to the Committee on Industry w.e.f. 07.05.2015

(iii)

INTRODUCTION

I, the Chairperson, Standing Committee on Chemicals and Fertilizers (2014-15) having been authorised by the Committee to present the Report on their behalf, present this Eighth Report (Sixteenth Lok Sabha) on Action Taken by the Government on the observations/ recommendations contained in the Third Report (Sixteenth Lok Sabha) of the Standing Committee on Chemicals and Fertilizers (2014-2015) on Demands for Grants (2014-2015) of the Ministry of Chemicals and Fertilizers (Department of Fertilizers).

2. The Third Report(Sixteenth Lok Sabha) of the Standing Committee on Chemicals and Fertilizers was presented to Lok Sabha on18.12.2014. The Action Taken replies of Government to all observations/ recommendations contained in the Report were received on5.3.2015. The Standing Committee on Chemicals and Fertilizers(2014-2015) considered and adopted this Report at their sitting held on 16.6.2015.

3. An analysis of the Action Taken by the Government on the observations/ recommendations contained in the Third Report (Sixteenth Lok Sabha) of the Committee is given in Appendix-II.

4. For facility of reference and convenience, the observations/recommendations of the Committee have been printed in bold letters in the body of the Report.

New Delhi;

14 January, 2014
23 Ashadha,1937 (Saka)

ANANDRAO ADSUL
Chairperson,
Standing Committee on
Chemicals and Fertilizers

REPORT

CHAPTER – I

This Report of the Standing Committee on Chemicals and Fertilizers (2014-15) deals with the action taken by the Government on the Observations / Recommendations contained in the Third Report (Sixteenth Lok Sabha) of the Committee on 'Demands for Grants (2014-15)' of the Ministry of Chemicals and Fertilizers (Department of Fertilizers) which was presented to Lok Sabha/ Rajya Sabha on 18.12.2014. In all, the Committee made 10 Observations / Recommendations in the Report.

2. The Ministry of Chemicals & Fertilizers (Department of Fertilizers) were requested to furnish replies to the Observations/ Recommendations contained in the Third Report within three months from the date of presentation of the Report, i.e. by 17.03.2015. The Action Taken Replies of the Government in respect of all the 10 Observations / Recommendations contained in the Report have been received from the Ministry of Chemicals and Fertilizers, Department of Fertilizers *vide* their O.M. No.-5(1)/2014-Fin-II/Vol.II, dated 05.03.2015. Accordingly, the Replies of the Ministry have been examined and categorized as follows:-

(i) Observations / Recommendations which have been accepted by the Government:-
S. Nos. 2, 3, 5, 6, 7, 8, 9 & 10
(Total=8)
Chapter II

(ii) Observations / Recommendations which the Committee do not desire to pursue in view of the Government's reply:-
S. No.NIL (Total=0)
Chapter III

(iii) Observations / Recommendations in respect of which replies of the Government have not been accepted by the Committee and which require reiteration:-
S. No. 4 (Total=1)
Chapter IV

(iv) Observations / Recommendations in respect of which final replies of the Government are still awaited:-
S. No. 1 (Total=1)
Chapter V

3. The Committee desire that the Action Taken Notes on the Observations / Recommendations contained in Chapter-I, Chapter IV in respect of which replies of the Government have not been accepted by the Committee and Chapter V for which final replies are still awaited, of this Report, should be furnished expeditiously.

4. The Committee will now deal with action taken by the Government on some of their Observations / Recommendations which still require reiteration or merit comments.

A. Need to ensure supply of gas to the fertilizer manufacturing units.

RECOMMENDATION NO.1

5. Emphasizing the need to ensure supply of gas to the fertilizer manufacturing units, the Committee had recommended as under:

> "The Committee note that presently India is 3rd largest fertiliser producer in the world with installed capacity of 127.67 lakh MT of nitrogen and 62.08 lakh MT of phosphatic nutrient during the year 2013-14. However, the indigenous production of fertilizers has not increased to meet the growing requirement largely due to raw materials / inputs limitation and partially due to lack of new investments in urea sector in the last decade. India is completely deficient in potassic resources and has to entirely depend upon import for meeting the requirement of potash (MOP) for the Indian agriculture. The country is also deficient in phosphatic resources with more than 90% requirement of the country being met through direct import of finished phosphatic fertilizers or phosphatic raw materials/intermediates for indigenous production of phosphatic fertilizers. At present, there are 30 urea units in our country. Out of these 30 urea units, 27 urea units use Natural Gas (using either domestic gas/LNG or both) as feedstock and fuel and the remaining three urea units use Naphtha as feedstock and fuel. Three Naphtha units viz., SPIC-Tuticorin, MFL-Manali and MCFL-Mangalore are in process for conversion from Naphtha to Gas feedstock.
>
> The Committee were informed that the availability of gas is one of the major limiting factor to the growth of urea industry in the country. Presently, the availability of domestic natural gas is not even sufficient to meet the demand of existing gas based urea units in the country. Due to shortage of domestic gas, many FO/LSHS/Naphtha based urea plants which have converted to gas recently, are meeting its requirement of gas by using costly RLNG. The total requirement of daily gas is 46 mmscmd out of which 25.413 mmscmd is met through domestic gas and 20.587 mmscmd gas is met through Regassified Liquefied Natural Gas (RLNG) in September, 2014. The Empowered Group of ministers (EGoM) on Gas pricing and Commercial Utilization of gas in their meeting held on 23.08.2013 decided to maintain the supplies of domestic gas to the Fertilizer sector at 31.5 mmscmd level and give the sector first priority in meeting the requirements of any shortfall below the level of 31.5 mmscmd from any additional production of NELP gas. The Committee are distressed to note that PSUs like FACT, Kochi has become a loss making unit since it has converted its plant to use gas as the feed stock but domestic gas is not being supplied to the plant and it has to get very high cost RLNG for the plant. At that rate, it is not economical to produce and sell and meet the margins within the subsidy that is available.
>
> According to the Department, excessive emphasis given on production of urea using natural gas has impeded the goal of India to become self-sufficient in the fertilizers sector because of lack of long term availability of natural gas in the country for urea plants, high cost of imported RLNG prices and volatility in prices. If Naphtha is used for production of urea as an alternative which is available as raw material in the country and if pricing is kept at Rs. 30000 per MT, then urea can be produced at Rs. 20000 per MT. However, considerable quantity of domestic natural gas is given at subsidised/controlled price for gas-based units but the same is not done for Naphtha FO/LSHS used by non-gas based units. Further, while pricing of natural gas is done based on its thermal energy (MMBTU), the same is not done in the pricing of

Naphtha/FO/LSHS which has resulted in higher cost of production of urea using Naphtha/FO/LSHS. The Department has claimed that if the same pricing principle is followed for Naphtha/FO/LSHS, the non-gas based urea units would not have been so cost inefficient and sufficient additional capacity could have been installed to make country self sufficient in urea sector.

In view of the forgoing, the Committee recommend that the Department should play a proactive role and take up the matter vigorously with the Ministry of Petroleum and Natural Gas ensuring that adequate quantity of natural gas is supplied without any hindrance to all the existing gas based urea units. The Committee also recommend that the Department should also ensure gas connectivity and supply of domestic gas to three Naphtha units viz., SPIC-Tuticorin, MFL-Manali and MCFL-Mangalore which are in process for conversion from Naphtha to Gas feedstock. The Committee further recommend that the Department should also impress upon the Ministry of Petroleum and Natural Gas to work out a pricing mechanism for Naphtha/FO/LSHS so that non-gas based units could become cost efficient till they become gas based. The Committee would like to be apprised of the progress made in this regard."

REPLY OF THE GOVERNMENT

6. In its action taken reply to the aforesaid recommendation, the Department of Fertilizers has stated as under:

"To ensure the adequate supply of domestic gas to the urea manufacturing units, this Department regularly takes up the matter with MoP&NG.

Three urea units viz., MFL-Manali, MCFL- Mangalore and SPIC-Tuticorin have started the process of conversion from Naphtha based units to Gas based units. However, the conversion of these three units is held up due to delay in commissioning of the gas pipeline connectivity. MFL-Manali has already signed Heads of Agreement with IOCL for supply of natural gas from its proposed LNG terminal at Ennore, which is likely to get commissioned by last quarter of 2017. As per original plan, MCFL was supposed to get LNG from petronet LNG-terminal at Kochi through a gas pipeline planned by GAIL from Kochi to Mangalore. But the laying of pipeline is facing stiff resistance from farmers and may take 24 months or more to lay approximately 350 kms of the pipeline in Kerala. GAIL is also exploring the option of laying a spurline from Dabhol-Bengaluru pipeline connecting to Mangalore from Chitradurga as progress on Kochi-Mangalore pipeline is severely dented due to non-availability of Right of Way (RoW) for lands under State of Kerala. A dedicated pipeline may also be laid from Ramnad to SPIC, Tuticorin by GAIL for which no permission is required from PNGRB or after finalisation of Ennore-Tuticorin pipeline by PNGRB, the successful bidder may take up the Ramnad-Tuticorin line on priority basis. Subsequent to connectivity of gas pipeline, the three companies may consider tying up imported RLNG to meet their requirement since as per the projections on availability of domestic gas, the same is not going to increase substantially in the coming years. As regards, domestic gas, the same shall be allocated as per the prevailing Gas Utilisation Policy as and when pipeline connectivity is established and the plants are in a position to consume gas.

So far as pricing mechanism for Naphtha is concerned, the matter is under discussion with MoP&NG."

Comments of the Committee

7. The Committee were informed that the availability of gas is one of the major limiting factors to the growth of urea industry in the country. Due to shortage of domestic gas, many FO/LSHS/Naphtha based urea plants which have been converted to

gas are meeting its requirement of gas by using costly RLNG. According to the Department, excessive emphasis given on production of urea using natural gas has impeded the goal of India to become self-sufficient in the fertilizers sector because of lack of long term availability of natural gas in the country for urea plants, high cost of imported RLNG prices and volatility in prices. Further, while pricing of natural gas is done based on its thermal energy (MMBTU), the same is not done in the pricing of Naphtha/FO/LSHS which has resulted in higher cost of production of urea using Naphtha/FO/LSHS. The Department had claimed that if the same pricing principle is followed for Naphtha/FO/LSHS, the non-gas based urea units would not have been so cost inefficient and sufficient additional capacity could have been installed to make country self sufficient in urea sector. The Committee, therefore, had recommended that the Department should play a proactive role and take up the matter vigorously with the Ministry of Petroleum and Natural Gas ensuring that adequate quantity of natural gas is supplied without any hindrance to all the existing gas based urea units. The Committee had also recommended that the Department should also ensure gas connectivity and supply of domestic gas to three Naphtha based units viz., SPIC-Tuticorin, MFL-Manali and MCFL-Mangalore which are in process of conversion from Naphtha to Gas feedstock. The Committee had also further recommended that the Department should also impress upon the Ministry of Petroleum and Natural Gas (MoP&NG) to work out a pricing mechanism for Naphtha/FO/LSHS so that non- gas based units could become cost efficient till they become gas based. In its Action Taken Reply, the Department has stated that to ensure the adequate supply of domestic gas to the urea manufacturing units, the Department regularly takes up the matter with MoP&NG. However, the Department is silent about the response of MoP&NG or the outcome of efforts/initiatives made by the Department in the matter. As regards the conversion of three urea units viz., MFL-Manali, MCFL- Mangalore and SPIC-Tuticorin from Naphtha based units to Gas based units, the Committee regret to note that the process of conversion of these three units is held up due to delay in commissioning of the gas pipeline connectivity. In this context, the Committee expect the Department to play a proactive role and impress upon the authorities concerned to expedite the conversion of aforesaid Naphtha based units to Gas based units as well as commissioning of the gas pipeline connectivity with in a fixed time frame. The Committee also recommend that the Department should take up the matter vigorously with all stakeholders including the Ministry of Petroleum and Natural Gas and explore all possible options to supply gas on regular basis to the urea units and till then they may be allowed to continue to use naphtha as feedstock to produce urea under the existing arrangement.So far as pricing mechanism for Naphtha is concerned, the Department has stated that the matter is under discussion with

MoP&NG. However, the Committee would like to reiterate its recommendation that the Ministry of Petroleum and Natural Gas should expedite working out a pricing mechanism for Naphtha/FO/LSHS so that non-gas based units using these products could become cost efficient. The Committee would like to be apprised of the initiatives undertaken by the Department and the progress on various issues as stated above.

B. Need for allocation of adequate funds under Gross Budgetary Support/ plan allocation for effective implementation of schemes/programmes of the Department.

RECOMMENDATION NO.3

8. Emphasizing the need for allocation of adequate funds under Gross Budgetary Support, the Committee had recommended as under:

> "The Committee note with concern that for the year 2012-13, only Rs. 10 crore was allocated at RE stage against the plan allocation of Rs. 256 crore and the actual expenditure was Rs.9.40 crore only. Further, for the year 2013-14, the plan allocation of Rs.269 crore was also drastically reduced to Rs.9 crore at the RE stage. Even the allocation of Rs 9 crore at RE stage could not be utilized fully as the actual expenditure was only Rs. 2.32 crores. The Committee also note that the main component of plan allocation was loans to Public Sector Undertakings (PSUs). Since the PSUs defaulted in repayment of earlier loans and its interest, the Ministry of Finance could not disperse further plan loans. The Committee are apprehensive that lesser funds allocated under GBS may upset the schemes/programmes of the Department finalised by them in consultation with PSUs/Co-operatives. The Committee also feel that as a result of reduction in the GBS allocation, the process of revival/rehabilitation of the three major loss making fertilizer units viz., BVFCL, FACT and MFL is also likely to be affected adversely. The Committee are of the view that Department should chalk out a realistic plan in consultation with all concerned PSUs and make projections to the Ministry of Finance to ensure allocation commensurate to the projections made by the Department so that the targeted growth of fertilizer sector and the revival/rehabilitation plan of loss making fertilizer units do not get hampered for want of resources during the 12th plan period.
>
> The Committee expect the Department to convey the Committee's concern in the matter to the Ministry of Finance. However, keeping in view the financial restriction imposed by the Ministry of Finance, the Committee expect from the Department to take corrective measures for capacity building of the sick units so that they are in a position to pay back the loans along with interest thereon. The Committee also expect the Department to make all efforts for full utilisation of funds allocated to them."

REPLY OF THE GOVERNMENT

9. In its action taken reply to the aforesaid recommendation, the Department of Fertilizers has stated as under:

> "Allocation for the Annual Plan 2012-13 (BE) was made by the Planning Commission in consultation with fertilizer PSUs. The Commission had approved Gross Budgetary Support of Rs.256.00 crore. PSUs which were to receive GBS, were requested to send Plan schemes for timely execution. But in the meantime, Ministry of Finance imposed financial restrictions vide its letter dated September 20, 2012 and accordingly, loan to loss making / defaulter PSUs viz. Brahmaputra Valley Fertilizers Corporation Limited

(BVFCL), Fertilizers & Chemicals Travancore Limited (FACT) and Madras Fertilizers Limited (MFL) could not be released. Also, Ministry of Finance revised the estimates and Plan funds were reduced from Rs.256.00 crore (BE) to Rs.10.00 crore (RE). Loan could not be released to any of the three PSUs. The actual expenditure of Rs.9.40 crore during the year was incurred on schemes viz. "Management of Information Technology" and "Science & Technology" programme of the Department.

Position during the year 2013-14 also remained similar. Planning Commission approved an outlay of Rs. 269.00 (BE) crore in the form of GBS. At RE stage, Ministry of Finance reduced the Plan outlay from Rs. 269.00 crore (BE) to Rs.9.00 crore (RE). The actual expenditure of Rs.2.32 crore incurred during the year was on schemes viz. "Management of Information Technology" and "Science & Technology" programme of the Department. The major part of the budget had been kept for mobile based Fertilizer Monitoring System (mFMS) scheme under MIT. However, due to non-completion of the 2nd phase of the mFMS, the fund earmarked, could not be fully utilized. As regards the programme of "Science & Technology" the allocated fund could not be utilized in its totality due to non-receipt of specific proposals.

Secretary (Fertilizers) wrote a letter to Finance Secretary on 12th June 2013 for seeking relaxations on the financial restrictions. In response, Ministry of Finance replied that any further assistance/releases to the PSUs will be considered as a part of the revival package approved by the Cabinet."

Comments of the Committee

10. The Committee had noted with concern that funds allocated to the Department under plan was reduced drastically at RE stage and that even the funds allocated at RE stage could not be fully utilized. The Committee had also notedthat plan allocation mainly comprises loans to loss making three Public Sector fertilizer companies namely Brahmaputra Valley Fertilizers Corporation Limited (BVFCL), Fertilizers and Chemicals Travancore Limited (FACT) and Madras Fertilizers Limited (MFL). Since these PSUs have defaulted in repayment of earlier loan and its interest, the Ministry of Finance could not disperse further plan loans. The Committee were apprehensive that lesser funds allocated under GBS may upset the Scheme/ programmes of the Department. The Committee were of the view that a realistic plan should be chalked out by the Department in consultation with all concerned PSUs ensuring allocation commensurate to the projections made by the them so that the targeted growth of fertilizer sector and the revival/rehabilitation plan of loss making fertilizer units do not get hampered for want of resources during the 12th plan period. The Committeealso expected from the Department to take corrective measures for capacity building of the sick units and to make all efforts for full utilization of funds allocated to them.In its Action Taken Reply, the Department has explained thatGBS of Rs. 256 crore was approved by the Planning Commission for the year 2012-13. PSUs were requested to send Plan schemes for timely execution but the Ministry of Finance imposed financial restrictions vide its letter dated 20 September 2012 and accordingly loan to loss making/defaulter PSUs viz. BVFCL, FACT and MFL could not be released. Position during the year 2013-14 also remained

similar. The major part of budget which was reduced from Plan outlay of Rs.269 crore (BE) to Rs. 9 crore(RE) was kept for mFMS scheme under MIT but the same also could not be fully utilized due to non-completion of 2nd phase of mFMS. Further funds allocated under "Science & Technology" programme could not be utilized in its totality due to non-receipt of specific proposals. It has also been stated that Secretary (Fertilizers) wrote a letter to Finance Secretary on 12th June 2013 for seeking relaxations on the financial restrictions. In its response, the Ministry of Finance replied that any further assistance/releases to the PSUs will be considered as part of the revival package approved by the Cabinet. The Committee feel that theentire explanation given by the Department clearly reflects lack of concerted and coordinated efforts and well thought action planfor timely execution of its various programmes as a result of which funds allocated to them were curtailed and/or remained under utilized. The very fact that the Department has taken up the matter with the Ministry of Finance after almost 9 months seeking relaxations on the financial restrictions imposed by them in September 2012 also indicates the level of seriousness with which the Department has dealt with the issue. Further, in its Action Taken Reply, nothing has been elaborated by the Department about the efforts made/being made by them in this regard during the last two years since June 2013. The Department is also silent about the efforts made by them to chalk out a realistic plan and projections to ensure allocation of requisite funds for its various programmesand for capacity building of the sick units and to ensure optimum utilization of funds allocated to them as recommended by the Committee. In view of the foregoing, the Committee are extremely disappointed with the explanation given by the Department and its approach on various issues confronting them. Needless to say that in the absence of adequate funds under GBS, it would be difficult for the loss making PSUs to sustain their operations. The Committee, therefore,recommend that the entire issue may be revisited afresh in a holistic manner in the overall interest of the fertilizer sector. The Committee also reiterate its earlier recommendation that a realistic projections of the funds required for sustaining the operations of the loss making PSUs be worked out to ensure allocation by theMinistry of Finance and earnest efforts be made for optimum utilization of funds allocatedand capacity building of the sick units. The Committee would like to be apprised of the initiatives undertaken by the Department to address the various issues as stated above.

C. Need to reduce or restrict the non plan expenditure of the Department in order to control heavy outgo of expenditure on account of subsidy.

RECOMMENDATION No. 4

11. Emphasizing the need to control non-plan expenditure of the Department of Fertilizers, the Committee had recommended as under:

> "The Committee observe from the notes on demands for grants (2014-15) that the non-plan allocation for the financial years 2012-13 and 2013-14 are Rs. 65,628.86 crore (AE) and Rs 68,000 crore (RE), respectively. The budget allocation against non plan expenditure for the year 2014-15 is Rs 73,000 crore (BE). Thus, while the non-plan expenditure of the Department has remained almost stagnant over the years from 2012-13 to 2013-14, the same has been increased by about Rs 5000 crore for the year 2014-2015 over the previous year allocation. The Committee also note that the non plan expenditure of the Department primarily relates to subsidy on fertilizers. While budget allocation for subsidy on imported fertilizers for the year 2014-2015 is Rs. 12300 crore, the same on decontrolled fertilizers is Rs. 24670.32 crore for payment to manufacturers/agencies for concessional sale of decontrolled fertilizers and subsidy on indigenous fertilizers is Rs. 36,000 crore. The subsidy on fertilizers is granted by the Government with a view to protect the farmers from adverse impact of price volatility in the international market and other negative factors. While the country is deficient in decontrolled fertilizers which is largely being imported, the country has achieved 75% self sufficiency in the production of urea. The Committee are of the view that it is essential that the production of indigenous fertilizers at low cost may be augmented in the country by increasing the efficiency and reducing the operational and administrative costs. The Committee feel that as a result of these measures the heavy outgo of expenditure on account of subsidy could be controlled/ reduced. In view of the foregoing, the Committee, therefore, recommend that the Department should work out an effective mechanism to reduce or restrict the non plan expenditure of the Department. The Committee would like the Department to address this issue and intimate the measures taken by them in this regard."

REPLY OF THE GOVERNMENT

12. In its action taken reply to the aforesaid recommendation, the Department of Fertilizers has stated as under:

> "Nutrient Based Subsidy (NBS) Scheme has been under implementation since 1.4.2010, under which subsidy is fixed on annual basis based on nutrient content taking into account international and domestic prices of P&K fertilizers, exchange rate inventory level etc. The prices of P&K fertilizer are fixed by fertilizer companies. After decontrol of prices and subsidy being fixed, variation in the international prices of P&K fertilizers and devaluation in exchange rate has affected the domestic prices of these fertilizers. After implementation of NBS Scheme the domestic prices of P&K fertilizers have increased and the subsidy rates remained more or less static or less than the pre NBS regime. This has resulted in reduction in subsidy burden on P&K fertilizers.
>
> Under NBS Policy the Government does not interfere in the functioning of fertilizer companies. The premise of the NBS Policy is that it will encourage competition amongst the fertilizer companies both indigenous and imported and in different sectors and the market forces will ensure stability in the prices. Hence, the companies themselves work towards increasing efficiency and reducing the operational and administrative cost to remain competitive in the market. This has also ensured reasonable price of P&K fertilizers in the country and for the farmers.
>
> At present, the non-plan expenditure is in line with the consumption of P&K fertilizers in the country. The only way to reduce non-plan subsidy would be to reduce

NBS rates and if NBS Rates are reduced in order to reduce non-plan expenditure, the prices of P&K fertilizers will go up and will affect consumption of P&K fertilizers and ultimately the balanced fertilization of soil.

Hence, we may propose to the committee that the Department may continue with the existing practice to encourage competition amongst the fertilizer companies and let the market forces determine the prices of P&K fertilizers.

A new urea policy is being formulated in which issues relating to energy efficiency to reduce the subsidy burden are being considered."

Comments of the Committee

13. The Committee had noted that the non plan expenditure of the Department which primarily relates to subsidy on fertilizers has remained stagnant over the years from 2012-13 to 2013-14. However, the same has increased by about Rs 5000 crore for the year 2014-2015 over the previous year allocation. The subsidy on fertilizers is granted by the Government with a view to protect the farmers from adverse impact of price volatility in the international market and other negative factors. The Committee were of the view that it is essential that the production of indigenous fertilizers at low cost may be augmented in the country by increasing the efficiency and reducing the operational and administrative costs and thereby controlling/ reducing the heavy outgo of expenditure on account of subsidy. The Committee had, therefore, recommended that the Department should work out an effective mechanism to reduce or restrict the non plan expenditure of the Department. In its Action Taken Reply, the Department has stated that under NBS Policy the Government does not interfere in the functioning of fertilizer companies. The NBS Policy encourages competition amongst the fertilizer companies both indigenous and imported and in different sectors and the market forces ensure stability in the prices. Hence, according to the Department, the companies themselves work towards increasing efficiency and reducing the operational and administrative cost to remain competitive in the market. This has also ensured reasonable price of P&K fertilizers in the country and for the farmers. The Department has contended that the only way to reduce non-plan subsidy would be to reduce NBS rates. However, if NBS Rates are reduced in order to reduce non-plan expenditure, the prices of P&K fertilizers will go up and will affect consumption of P&K fertilizers and ultimately the balanced fertilization of soil. The Committee are not entirely convinced with the explanation of the Department that the existing practice to encourage competition amongst the fertilizer companies may continue and let the market forces determine the prices of P&K fertilizers. The fact remains that the prices of P&K fertilizers have gone up sharply under NBS regime which is one of the reasons for unbalanced use of fertilizers by the farmers as they have gone for less costly urea in

place of costly P&K fertilizers. The prices of fertilizers fixed by the fertilizer companies are also on higher side. The Committee are, therefore, of the strong view that the Department being the nodal authority, can not simply ignore its responsibility to ensure supply of fertilizers to the farmers at affordable prices and also its balanced utilization by the farmers in order to check degradation of soil. It is, therefore, imperativethat the production of low cost indigenous fertilizers may be augmented in the country which, in turn, may result restricting/reducing expenditure on account of subsidy. In this regard, the Committee note that a new urea policy is being formulated in which issues relating to energy efficiency to reduce the subsidy burden are being considered. The Committee hope and trust that the proposed policy would help to reduce or restrict the non plan expenditure of the Department. The Committee would like to be apprised of the action taken by the Department on all the issues as discussed above.

D. Need to expedite the implementation of the scheme for direct payment of subsidy to the farmers.

RECOMMENDATION NO.6

14. Emphasizing the need to implement the scheme for direct payment of subsidy to the farmers, the Committee had recommended as under:

> "In their earlier Reports, the Committee had recommended for direct payment of subsidy to the poor and marginal farmers. The Committee have been informed that the Department is following a phased approach for direct disbursement of fertiliser subsidy to the intended beneficiaries. The implementation of Phase-I has already been made operational and is under stabilization and Phase-II of mFMS which capture the retailer sales of fertilizers to 'buyer' is in pilot stage and was rolled out in 6 districts (Nawanshahar-Punjab, East Godavari- Andhra Pradesh, Sonipat- Haryana, Bilaspur-Himachal Pradesh, Ajmer- Rajasthan, and Madurai- Tamil Nadu) on 1st August 2013. However, the Department is facing various problems. As regards to subsequent phases of project i.e. Phase-III and Phase-IV, the Committee were appraised that it was discussed and decided in the meeting on Direct Transfer of Fertilizer Subsidy that Direct Benefit Transfer (DBT) in fertilizers was complex matters as there are problems in targeting, determining entitlements and preparing beneficiary databases. Therefore, for the moment it would be better to keep DBT away from fertilizers but the Department would take steps to build up a digital database of 'buyers'. In view of above, Phase-III and Phase-IV have been put on hold and the Department focusing on implementation of Phase-I & Phase-II. The Committee are of the view that transfer of the benefits of direct subsidy to the farmers would check the corruption, close the loopholes and profligacy in subsidies. The Committee, therefore, recommend that the Department should work out a mechanism in consultation with all concerned and address the problems faced in targeting, determining entitlements and preparing beneficiary databases so that the benefit of subsidy is disbursed directly to the intended beneficiaries at the earliest. The Committee would like to be apprised of the initiatives undertaken by the Department in this regard."

REPLY OF THE GOVERNMENT

15. In its action taken reply to the aforesaid recommendation, the Department of Fertilizers has stated as under:

> "Department of Fertilizer is examining the feasibility and practicality of tracing each bag of fertilizer by studying the prevailing practice in case of other commodities. If found practical and implementable, Department of Fertilizers will take steps to introduce similar mechanism in case of fertilizer also. Further, this Department is also exploring possibilities for rolling out the Pilot for Direct Benefit Transfer (DBT) of Fertilizer Subsidy in the two districts in Odisha. In this regard, the department is interacting with state Agriculture Department, Odisha and their implementation agency for feasibility of pilot implementation."

Comments of the Committee

16. The Committee were informed that the Department is following a phased approach for direct disbursement of fertiliser subsidy to the intended beneficiaries. The Phase-I has already been made operational and is under stabilization. In Phase-II of mFMS which capture the retailer sales of fertilizers to 'buyer' and which was rolled out in 6 districts in pilot stage, the Department is facing various problems. As regards to subsequent phases of project i.e. Phase-III and Phase-IV, the Committee were apprised that the same have been put on hold as there are problems in targeting, determining entitlements and preparing beneficiary databases. The Committee were of the view that transfer of the benefits of direct subsidy to the farmers would check the corruption, close the loopholes and profligacy in subsidies. The Committee had , therefore, recommended that the Department should work out a mechanism in consultation with all concerned and address the problems as mentioned above so that the benefit of subsidy is disbursed directly to the intended beneficiaries at the earliest. Inits Action Taken Reply, it has been informed to the Committee that Department is examining the feasibility and practicality of tracing each bag of fertilizer by studying the prevailing practice in case of other commodities. If found practical and implementable, the Department will take steps to introduce similar mechanism in case of fertilizer also. Further, the Department is also exploring possibilities for rolling out the Pilot project for Direct Benefit Transfer (DBT) of Fertilizer Subsidy on the various districts of India. In view of the foregoing, the Committee hope and trust that the Department would make earnest efforts to examine the feasibility and practicality of tracing each bag of fertiliser expeditiously as well as exploring the possibilities for rolling out the pilot project for Direct Benefit Transfer of fertiliser subsidy in the two districts in Odisha. The Committee would like to be apprised of the progress made on issues as explained above.

CHAPTER-II

OBSERVATIONS/RECOMMENDATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

RECOMMENDATION NO.2

The Committee note with concern that the imbalance use of fertilizers has resulted in deterioration of the soil health leading to decline in the agricultural productivity. There is limited infrastructure for soil testing due to which the farmers do not have any information regarding requisite dose of plant nutrient i.e. fertilizers. The Committee also note that, in order to improve soil fertility, the Department of Agriculture & Cooperation (DAC) proposed to launch a Central Sector Scheme 'Soil Health Card'. This scheme aims at providing the farmers the required information on soil analysis and recommendations on appropriate doses of nutrients to be used for various crops depending upon the physical, chemicals and biological health of the soil. In order to promote the balanced use of fertilizers, fertilizer companies including PSUs undertake Fertilizer Education Projects as part of their extension and marketing activities. The Committee hope that the new scheme of 'Soil Health Card' would help the farmers to check the deteriorating soil health and take corrective actions and thereby boosting the agricultural productivity in the country. The Committee are also of the view that it would be absolutely essential if Soil Health Card is made mandatory for purchase of fertilizers by the farmers so that they could get appropriate doses of nutrients which is balanced and essential for the health of soil. The Committee, therefore, recommend that the Department in consultation with DAC and other stakeholders should make an action plan on the subject and before making soil health card as essential, an extensive and vigorous awareness campaign amongst the farmers may be made by the Department, DAC and all fertiliser companies about Soil Health Cards as well as regarding the ill effects of over doses of fertilizers and the benefits of balanced use of fertilizers by the farmers. The Committee also recommend that the Department should also impress upon DAC to establish soil testing centres in every district of the country so that the farmers need not to go far away for the purpose.

REPLY OF THE GOVERNMENT

Soil health Card Scheme has been approved for implementation with an outlay of Rs.568.54 crore during 12th Plan period. The scheme has components for providing soil health cards to all farmers in the country in 3 years period, training of farmers for balanced nutrient practice, workshops to create awareness among farmers and financial assistance for micronutrients & soil ameliorants for adoption of doses recommended in soil health cards.

Apart from above, under National Mission for Sustainable Agriculture (NMSA), Financial Assistance is provided to States for training to farmers and demonstrations on farmer's field on soil health management.

RECOMMENDATION NO.3

The Committee note with concern that for the year 2012-13, only Rs. 10 crore was allocated at RE stage against the plan allocation of Rs. 256 crore and the actual expenditure was Rs.9.40 crore only. Further, for the year 2013-14, the plan allocation of Rs.269 crore was also drastically reduced to Rs.9 crore at the RE stage. Even the allocation of Rs 9 crore at RE stage could not be utilized fully as the actual expenditure was only Rs. 2.32 crores. The Committee also note that the main component of plan allocation was loans to Public Sector Undertakings (PSUs). Since the PSUs defaulted in repayment of earlier loans and its interest, the Ministry of Finance could not disperse futher plan loans. The Committee are apprehensive that lesser funds allocated under GBS may upset the schemes/programmes of the Department finalised by them in consultation with PSUs/Co-operatives. The Committee also feel that as a result of reduction in the GBS allocation, the process of revival/rehabilitation of the three major loss making fertilizer units viz., BVFCL, FACT and MFL is also likely to be affected adversely. The Committee are of the view that Department should chalk out a realistic plan in consultation with all concerned PSUs and make projections to the Ministry of Finance to ensure allocation commensurate to the projections made by the Department so that the targeted growth of fertilizer sector and the revival/rehabilitation plan of loss making fertilizer units do not get hampered for want of resources during the 12th plan period.

The Committee expect the Department to convey the Committee's concern in the matter to the Ministry of Finance. However, keeping in view the financial restriction imposed by the Ministry of Finance, the Committee expect from the Department to take corrective measures for capacity building of the sick units so that they are in a position to pay back the loans along with interest thereon. The Committee also expect the Department to make all efforts for full utilisation of funds allocated to them.

REPLY OF THE GOVERNMENT

Allocation for the Annual Plan 2012-13 (BE) was made by the Planning Commission in consultation with fertilizer PSUs. The Commission had approved Gross Budgetary Support of Rs.256.00 crore. PSUs which were to receive GBS, were requested to send Plan schemes for timely execution. But in the meantime, Ministry of Finance imposed financial restrictions vide its letter dated September 20, 2012 and accordingly, loan to loss making / defaulter PSUs viz. Brahmaputra Valley Fertilizers Corporation Limited (BVFCL), Fertilizers & Chemicals Travancore Limited (FACT) and Madras Fertilizers Limited (MFL) could not be released. Also, Ministry of Finance revised the estimates and Plan funds were reduced from Rs.256.00 crore (BE) to Rs.10.00 crore (RE). Loan could not be released to any of the three PSUs. The actual

expenditure of Rs.9.40 crore during the year was incurred on schemes viz. "Management of Information Technology" and "Science & Technology" programme of the Department.

Position during the year 2013-14 also remained similar. Planning Commission approved an outlay of Rs. 269.00 (BE) crore in the form of GBS. At RE stage, Ministry of Finance reduced the Plan outlay from Rs. 269.00 crore (BE) to Rs.9.00 crore (RE). The actual expenditure of Rs.2.32 crore incurred during the year was on schemes viz. "Management of Information Technology" and "Science & Technology" programme of the Department. The major part of the budget had been kept for mobile based Fertilizer Monitoring System (mFMS) scheme under MIT. However, due to non-completion of the 2nd phase of the mFMS, the fund earmarked, could not be fully utilized. As regards the programme of "Science & Technology" the allocated fund could not be utilized in its totality due to non-receipt of specific proposals.

Secretary (Fertilizers) wrote a letter to Finance Secretary on 12th June 2013 for seeking relaxations on the financial restrictions. In response, Ministry of Finance replied that any further assistance/releases to the PSUs will be considered as a part of the revival package approved by the Cabinet.

Comments of the Committee

(Please see Para No.10 of Chapter- I of the Report)

RECOMMENDATION NO.5

The Committee note that NBS policy is being implemented by the Department for P&K fertilizers w.e.f. 1.4.2010 under which a fixed rate of subsidy, decided on annual basis, is provided on each grade of subsidized P&K fertilizers depending on their nutrient content. The NBS rates for P&K fertilizers are fixed by the Government taking into consideration all relevant factors including the likely impact of these rates on total subsidy payout. The Committee note that there has been a gradual decline in subsidy on decontrolled fertilizers i.e. Phosphatic (P) and potassic (K) fertilizers from Rs.30,576.10 crore in 2012-13 (AE) to Rs.24,670.32 crore in the year 2014-15 (BE). According to the Department, gradual decline in the budgetary allocation on decontrolled Fertilizers is due to reducing per K.G Subsidy on each Nutrient covered under NBS and also partly due to lower consumption of P&K Fertilizers. The Committee are, therefore, inclined to conclude that since the introduction of NBS policy, the consumption of decontrolled fertilizers is declining in the country primarily due to reducing per Kg. subsidy on each nutrient covered under NBS regime. As a result thereof, the consumption of controlled fertilizer i.e. urea has increased leading to imbalanced use of fertilizers and deterioration of soil health. The Committee feel that the NBS policy of the Government has not gone well as the same has resulted in sharp increase in prices of decontrolled fertilizers and consequent reduction in its consumption leading to imbalanced use

of fertilizers affecting the soil health. Further, under the NBS regime, small and marginal farmers are worst affected as they are not able to afford the high cost of decontrolled fertilizers.

In this regard, the Committee were informed that in order to study the impact of NBS Policy Government had appointed M/s Ernst & Young (EY). M/s EY has submitted the draft study report, however, it has been asked to incorporate certain analysis to bring out more results. The final report was expected to be received in the 1st week of November 2014. The Committee, therefore, recommend that the Department should find ways so that rise in price of fertilizers due to reduction in subsidy on fertilizers is not passed on to the farmers. The Department should also closely scrutinise the price of P&K fertilizers fixed by the fertilizers companies so that the same are not unreasonable. The report of M/s EY may be got expedited and should also be examined expeditiously so that NBS policy may be suitably modified in the interest of the farmers at large. The Committee would like to be apprised of the measures taken by the Department in this regard.

REPLY OF THE GOVERNMENT

The Committee recommended that the Department should find ways so that rise in price of fertilizers due to reduction in subsidy on fertilizers is not passed on the farmers. The Department should also closely scrutinize the price of P&K fertilizers fixed by the fertilizer companies so that the same are not unreasonable. The committee further advised for examination of the report of M/s Ernst and Young expeditiously so that NBS Policy may be suitably modified in the interest of the farmers at large.

The delivered cost of fertilizers depends on the international prices of P & K fertilizers and their raw materials and also the exchange rate. India being dependent on imports upto 90% in phosphatic sector and 100% in potassic sector and even for nitrogen requirement most indigenous P & K fertilizers depend on imported ammonia / urea, any increase / decrease in international prices of P&K fertilizers, ammonia / urea and raw materials will have a bearing on the delivered price of these fertilizers. Since under NBS Scheme the subsidy rates are fixed, the increase in international prices will definitely affect the domestic prices of P&K fertilizers. However, the Department is monitoring the reasonableness of prices of P & K fertilizers fixed by fertilizer companies in order to protect the interest of the farmers. In this regard, the Government has put in place a mechanism to ensure reasonableness of prices fixed by fertilizer companies. Under the new mechanism, a provision has been made for submission of cost data relating to material, input costs including cost of gas, production etc. from 2012-13 onwards, by fertilizer companies to assess the reasonableness of prices. If at any stage it is found that the MRP being fixed by the companies are resulting in undue profiteering, the same shall be recovered from the company. In order to analyze the cost data submitted by the P&K fertilize

companies and to find out the reasonableness of prices, the Department has appointed Cost Accountants / Firms. The cost Accountants/firms have started submitting their reports.

As regards the study by M/s E&Y, it is stated that the consultancy firm has submitted the report and the report has been accepted for taking further necessary action. The recommendations are under examination.

RECOMMENDATION NO.6

In their earlier Reports, the Committee had recommended for direct payment of subsidy to the poor and marginal farmers. The Committee have been informed that the Department is following a phased approach for direct disbursement of fertiliser subsidy to the intended beneficiaries. The implementation of Phase-I has already been made operational and is under stabilization and Phase-II of mFMS which capture the retailer sales of fertilizers to 'buyer' is in pilot stage and was rolled out in 6 districts (Nawanshahar-Punjab, East Godavari- Andhra Pradesh, Sonipat- Haryana, Bilaspur- Himachal Pradesh, Ajmer- Rajasthan, and Madurai- Tamil Nadu) on 1st August 2013. However, the Department is facing various problems. As regards to subsequent phases of project i.e. Phase-III and Phase-IV, the Committee were appraised that it was discussed and decided in the meeting on Direct Transfer of Fertilizer Subsidy that Direct Benefit Transfer (DBT) in fertilizers was complex matters as there are problems in targeting, determining entitlements and preparing beneficiary databases. Therefore, for the moment it would be better to keep DBT away from fertilizers but the Department would take steps to build up a digital database of 'buyers'. In view of above, Phase-III and Phase-IV have been put on hold and the Department focusing on implementation of Phase-I & Phase-II. The Committee are of the view that transfer of the benefits of direct subsidy to the farmers would check the corruption, close the loopholes and profligacy in subsidies. The Committee, therefore, recommend that the Department should work out a mechanism in consultation with all concerned and address the problems faced in targeting, determining entitlements and preparing beneficiary databases so that the benefit of subsidy is disbursed directly to the intended beneficiaries at the earliest. The Committee would like to be apprised of the initiatives undertaken by the Department in this regard.

REPLY OF THE GOVERNMENT

Department of Fertilizer is examining the feasibility and practicality of tracing each bag of fertilizer by studying the prevailing practice in case of other commodities. If found practical and implementable, Department of Fertilizers will take steps to introduce similar mechanism in case of fertilizer also. Further, this Department is also exploring possibilities for rolling out the Pilot for Direct Benefit Transfer (DBT) of Fertilizer Subsidy in the two districts in Odisha. In this

regard, the department is interacting with state Agriculture Department, Odisha and their implementation agency for feasibility of pilot implementation.

Comments of the Committee

(Please see Para No.16 of Chapter- I of the Report)

RECOMMENDATION NO.7

The Committee note that in order to reduce import dependency on urea and attract fresh investment, the New Investment Policy 2012 (NIP-2012), has been notified on 2nd January, 2013 by the Government of India. In this regard, the Department has moved an amendment in New Investment Policy (NIP) - 2012 through CCEA for substituting the phrase "guaranteed buyback" with expression that subsidies will be given only upon domestic sale as at present with proper safeguards. The Committee have also been informed that the Department has received the proposals/projects of the 15 companies under the NIP – 2012 and the final decision in this regard will be taken after the issuance of the notification of amendment to NIP – 2012, which has already been approved by the competent authority. The Committee are of the view that notification of amendment to NIP – 2012 is imperative for examination of the proposals/projects of the 15 companies. The Committee, therefore, recommend that the notification of amendment to NIP – 2012 may be expedited so that the proposals/projects received from the 15 companies may be considered and decided at the earliest.

REPLY OF THE GOVERNMENT

Department of Fertilizers has notified the amendment to New Investment Policy (NIP) – 2012 on 07th October, 2014. As of now, this Department has received twelve proposals for setting up of Revamp, Expansion, Revival and Greenfield plants in response to the amendment to NIP – 2012.

Further, Department of Fertilizers is examining these proposals in the light of the provisions of the NIP-2012 and amendments thereof.

RECOMMENDATION NO.8

The Committee note that out of 9 public sector fertilizer companies under administrative control of Department of Fertilizers, 3 companies viz. FACT, MFL and BVFCL are sick units. The Committee also note that financial performance of these units have been dismal except MFL which has showed positive growth in the previous two years, 2012-13 and 2013-14. With regards to steps being taken for revival of HPCL and FCIL, the Department of

Fertilizers informed that the revival of Talcher, Ramagundam and Sindri units of FCIL is under process and revival of Gorkhpur and Korba of FCIL unit will be taken up subsequently.

For the revival of MFL, the Department has informed that a financial restructuring proposal has been submitted to Department of Public enterprises (DPE) for placing the same before Board for Reconstruction of Public Sector Enterprises (BRPSE) which has been returned as the posts of Chairman, BRPSE, Secretary, BRPSE and two other non official members of BRPSE are vacant. Further, with regard to revival of Brahmaputra Valley Fertilizer Corporation Ltd. (BVFCL), the Committee were informed that the BRPSE has recommended the financial restructuring plan to the Government. Based on the recommendations of BRPSE, a draft CCEA note seeking financial relief for BVFCL has been circulated for inter-ministerial consultations. With regards to revival of FACT, a proposal seeking approval of CCEA for sanction of financial reliefs has been submitted to the Cabinet Secretariat. However, due to financial restriction imposed by the Ministry of Finance to defaulter companies, Gross Budgetary Support (GBS) in the form of loan was not released to any of the loss making companies i.e. Fertilizers and Chemicals Travancore Limited (FACT) and Madras Fertilizers Limited (MFL), during 2012-13 and 2013-14.

The Committee are of the view that expeditious revival of sick and closed fertilizer units is essential for making India self-sufficient in the fertilizer sector and to reduce imports dependency. However, the Committee regret to note the slow progress made by the Government in the revival of these sick units so far. The Committee also feel that the delay in the revival of closed and sick units leads to time and cost overruns. Keeping in view the significant role which are expected to be played by these sick units after their revival, the Committee recommend that the process of revival of closed units of fertilizers be expedited with in a fixed time frame.

REPLY OF THE GOVERNMENT

A status note on the progress made by the Government to revive the closed units of fertilizers is as under:

Eight fertilizers units of the PSUs under the administrative control of the Department of Fertilizers have been lying closed at present. Out of these five closed units are of Fertilizer Corporation of India Limited (FCIL) and three are of Hindustan Fertilizer Corporation Limited (HFCL). Government is considering the revival all the eight closed units.

CCEA in its meeting held on 9.5.2013, inter-alia, approved waiver of Government of India loan and interest to facilitate FCIL to arrive at positive net worth. This enabled FCIL to get de-registered from the purview of Board for Industrial and Financial Reconstruction (BIFR). CCEA approved the proposal of Department of Fertilizers to revive the closed units of FCIL and for the closed units of HFCL, CCEA decided that Proposal/action plan on revival of HFCL units

to be taken up once revival of FCIL units is on track. As per this proposal out of five closed units of FCIL, Talcher, Ramagundam and Sindri units are to be revived on nomination route while Gorakhpur and Korba units are to be revived on bidding route. Unit wise progress made on revival of the closed units of FCIL is as under:

(a) Talcher Unit:

The pre-project activities for revival of Talcher Unit (Odisha) of FCIL by the nominated PSUs, namely, Rashtriya Chemicals & Fertilizers Limited (RCF), Coal India Limited (CIL), Gas Authority of India Limited (GAIL) & FCIL are in progress to set-up a coal-based fertilizer plant. It has been proposed to establish two joint venture (JV) companies viz. First company for upstream coal gasification section with GAIL and second company comprising RCF, CIL and FCIL for downstream section of Ammonia-urea, Nitric Acid, Ammonia Nitrate plants, off sites and utilities. The Memorandum of Understanding (MOU) and JV agreement among consortium PSUs i.e. CIL, RCF, GAIL and FCIL, has been signed on 5.9.2013 and 24.12.2014 respectively. Selection of coal gasification technology is in process. The project is likely to be completed by end of 2018.

(b) Ramagundam Unit

The pre-project activities for revival of Ramagundam Unit (Telangana) of FCIL by the nominated PSUs, namely, Engineers India Limited (EIL) & National Fertilizers Limited (NFL) are in progress to set-up a gas-based fertilizer plant. The Joint Venture agreement and Concession agreement are under discussion and are being targeted for conclusion/approval by respective boards. EIL & NFL are having discussions with the Technology providers. Technology selection for Ammonia and Urea process unit would be completed by the end of October, 2014. The JV company would operate the plant and EIL would take up the detailed Engineering Procurement of equipment and Construction (EPC) of the plant. JV agreement among consortium PSUs i.e. NFL, EIL and FCIL has been signed on 14.01.2015. The project is likely to be completed by September 2018.

(c) Sindri unit

For Sindri unit, SAIL-Sindri Projects Ltd. (SSPL), a wholly owned subsidiary of SAIL, has been incorporated in November 2011 for the purpose of revival of Sindri Unit of FCIL. However, not much progress has been made due to non-availability of around 3000 Acres of contiguous piece of land for the Steel Plant due to encroachment.

In the meantime SAIL has informed that the scenario for SAIL has undergone change, a massive modernization and expansion plan of SAIL is currently under implementation, with capital expenditure (CAPEX) commitment of Rs.72,000 crore. SAIL's borrowings have increased to around Rs. 25,300 crore. SAIL has drawn a vision plan 2025

to expand to 50 MTPA Hot Metal capacity by 2025. This requires a commitment around Rs. 2.02 lakh crore. In view of the above, SAIL Board has taken a view not to pursue the Sindri Revival project further

At present, PSUs/ Cooperatives with the experience of fertilizer manufacturing are not free to take-up revival of Sindri unitto enable GoI to offer the same on nomination basis. DoF while exploring the feasibility of fast tracking the revival of Sindri unit, considered the alternative route for revival, i.e. through the 'bidding route' to ensure anchoring Sindri unit en-route the Jagdishpur-Haldia Pipeline (JHPL) of GAIL for utilizing the gas and to leverage the existing infrastructure of Sindri unit.

A Cabinet Note for revival of Sindri (Jharkhand) unit of FCIL has been circulated for inter-ministerial consultations on 23.1.2015.

(a) Gorakhpur unit

M/s. GAIL is planning to lay a gas pipeline from Jagdishpur (Uttar Pradesh) to Haldia (West Bengal). To make this gas pipeline financially viable, there is a need of anchor units en-route the pipeline for utilizing the gas, therefore, it has been decided that revival of Gorakhpur unit of FCIL, which is en-route of Jagdishpur-Haldia pipeline(JHPL) should be fast tracked. Earlier, CCEA had approved revival of Gorakhpur unit on "bidding route" and since the "bidding route" is a time consuming process (may take 6 months to an year), involving two-bid global bidding process and also there is uncertainty in this regard, it has been proposed that in order to fast track the revival of the Gorakhpur unit, the unit be revived through "nomination route".

During the earlier consultations, no PSU came forward to take up the revival of Gorakhpur unit to enable GoI to offer the same on nomination basis, therefore, CCEA on recommendation of ECOS, approved its revival through "bidding route". At present, profit making/big Fertilizer PSUs, namely National Fertilizers Limited (NFL) & Rashtriya Chemicals and Fertilizers Limited (RCFL), are already tied-up with the revival of Ramagundam & Talcher units of FCIL respectively in association with other non-fertilizer PSUs. No other PSU with the experience of fertilizer production is large enough to take-up the revival of Gorakhpur unitto enable GoI to offer the same on nomination basis. DoF while exploring the feasibility of fast tracking the revival of Gorakhpur and Barauni units, held discussions with Indian Farmers Fertilizer Cooperative Limited (IFFCO) & KRIBHCO. KRIBHCO has agreed 'in-principle' to consider setting up of a urea manufacturing complex with 1.3 million MT urea annual capacity at Gorakhpur. KRIBHCO has experience in production and trade of fertilizers and is well versed in various ammonia & urea technologies, apart from being a profit making multi-state large Cooperative. Therefore, it has been proposed to revive Gorakhpur unit through nomination route by KRIBHCO.

Accordingly, a Cabinet note has been sent to Cabinet Secretariat to place it before the CCEA on 30.1.2015.

(b) Korba unit

The revival of Korba (Chattisgarh) unit of FCIL would be taken up later on.

Hindustan Fertilizer Company Limited (HFCL)

As per the decision of CCEA the proposal/ action plan on revival of HFCL units i.e, Barauni, Durgapur and Haldia, is to be taken up once revival of FCIL units is on track in terms of CCEA approval in May 2013. However, in the context of the recent announcement of the proposed Jagdishpur-Haldia Pipeline of GAIL, DoF is exploring the feasibility of fast tracking the revival, of Barauni unit of HFCL.

(a) **Barauni unit**

M/s. GAIL India Limited(GAIL) is planning to lay a gas pipeline from Haldia (West Bengal) to Jagdishpur (Uttar Pradesh) (HBJ). This pipeline would be passing around 70 km away from Barauni Unit. To make the gas pipeline financially viable, there is a need of anchor units en-route the pipeline for utilizing the gas. Therefore, it has been decided that revival of Barauni Unit of HFCL, which is en-route of HBJ pipeline should be fast tracked.

A Cabinet Note for revival of Barauni (Bihar) unit of HFCL is being finalized in the Department.

RECOMMENDATION NO.9

The Committee note that out of 9 fertilizer PSUs, 4 are profit making fertilizer PSUs. However, only 2 PSUs i.e. RCF and FAGMIL have shown marginal increase in the profits during 2011-12 to 2012-13 and other 2 PSUs i.e. PDIL and MFL, the profits margin has come down during the said period. For the year 2013-14 (provisional), except for the PSUs like RCF, MFL and FAGMIL, other PSUs are incurring losses. The Committee, therefore, would like to recommend that the Department in coordination with the PSUs should meticulously study the factors responsible for the growth and development of these PSUs and come out with a detailed plan for improving and streamlining the functioning of these organisations in order to increase their profit margins. The Committee would like to be apprised of the action taken by the Department in this regard.

REPLY OF THE GOVERNMENT

(1) **Brahmaputra Valley Fertilizers Corporation Limited (BVFCL):**

BVFCL has two operating plants – Namrup-II and Namrup-III at Namrup in Assam. BVFCL is incurring financial losses since inception due to low capacity utilization & high energy consumption.

Namrup-II and Namrup-III plants are based on older generation technology and are of smaller capacity than the present available standard size plants. These plants never attained the designed stream days, capacity utilization and energy efficiency; even the normative energy consumption of these plants is very high.

Considering the above, a Cabinet Note has been submitted to the Cabinet Secretariat for placing it before the Cabinet for the approval. In this Note there is a proposal for the Setting up a New brown field Ammonia-Urea Plant by phasing out the existing Namrup-II & III plants. This will result in the long term viability of the Company (BVFCL) and also most efficient use of scarce natural resource i.e. Natural Gas (NG). In addition, the Note also seeks approval on the Financial Restructuring of the BVFCL that will help the company in making its net-worth positive.

(2) **Fertilizers & Chemicals Travancore Limited (FACT):**

FACT, which was a profit making organization, went into losses due to various reasons beyond the control of the organization. The earlier supports by the Government of India helped in cleaning up the balance sheet and staying out of the purview of BIFR. Networth of the company became negative during 2012-13 and has further deteriorated to a level of (-) 457 crore by 31-03-2014.

In order to ensure the revival of FACT and help it sustain and grow over the years, short term, medium term and long term plans have been identified. Accordingly, a proposal for the Financial restructuring of FACT has been prepared. Board for Reconstruction of Public Sector Enterprises (BRPSE) has recommended the proposal in its meeting held on 20.12.2013. Accordingly, a proposal seeking approval of CCEA for sanction on the financial reliefs to FACT has been submitted to Cabinet Secretariat. Department of Expenditure has raised some issues on the matter. Department of Fertilizers is in discussions with Department of Expenditure to resolve these issues.

(3) **Madras Fertilizers Limited (MFL):**

MFL started incurring losses in the year 2003-04 and declared Sick in 2009. Though the company has incurred profit in the last two financial years, the net-worth of the company is still negative i.e. Rs. (-) 206.19 Crore as on 31.03.2014. To make the net-worth of the company positive a proposal for the financial restructuring of MFL has

been prepared. As the posts of Chairman, Secretary and two other non official members of BRPSE are vacant the proposal is still to be placed before the BRPSE for the recommendations of BRPSE.

(4) **National Fertilizers Limited(NFL):**

National Fertilizers Limited is a profit making PSU. Company earned profit before tax till Financial Year 2011-12. However, Company incurred loss before tax of Rs. 230.62 crore and Rs.161 Crore during 2012-13 and 2013-14 respectively.

During 2014-15, Company has come out of losses and reported a profit before tax of Rs.109.76 crore for the half year ended 30th Sept.,2014.

During the financial year 2012-13 & 2013-14, the flagship projects undertaken by the company were commissioned. The Changeover of Feed Stock Project from Fuel Oil to Gas at Panipat and Bathinda were commissioned in 2012-13 and at Nangal in 2013-14. The Energy Saving & Urea Capacity Augmentation Projects at Vijaipur-I&II were commissioned in the year 2012-13. Due to commissioning of these Projects, all units were under shut down for around two months resulting in lower production and higher energy consumption due to time taken by the units in stabilizing the operations post commissioning of the projects. The losses incurred by the company during the financial year 2012-13 & 2013-14 mainly pertained to lower production, higher energy consumption and non-revision in the reimbursement of fixed cost under New Pricing Scheme (NPS) of Urea.

During the financial year 2014-15, all the plants have since stabilized and operating at optimum levels. Government has also implemented Modified NPS Stage III Policy from 2nd April, 2014 under which reimbursement of fixed cost has been increased. Company has come out of losses and reported a profit of Rs. 109.76 crore for the half year ended 30th September, 2014. The profitability of the company shall, further improve with the implementation of NIP – 2008 which is under revision with the Government.

(5) **PDIL:**

The reasons for decline in performance since 2012-13 are as below :

i) PDIL is predominantly dependent on the projects in Fertilizer Industry. PDIL could secure consultancy jobs for the revamping, energy saving, feed stock conversion of major fertilizer companies like IFFCO, KRIBHCO, RCF, NFL etc. PDIL also executed consultancy services for the only Grass-root Ammonia/Urea plant of M/s. Matix Fertilizers at Panagarh, West Bengal. All these jobs were completed by the yearended 2011-12.

ii) There are no grass-root/brown-field Ammonia/Urea plants for the past more than 15 years (except that of M/s. Matix Fertilizers in West Bengal) due to policy issues and feed stock issues.

iii) Besides the trend in execution of the contracts has shifted to LSTK mode from the traditional EPCM mode, shrinking the order size.

iv) Competition in the limited field of Fertilizers has increased as MNC's have set up their offices in India and in PSU's EIL has also entered into fertilizer sector.

v) Consequently the order book of PDIL from the year 2011-12 has been low which is showing on the Income and Profits from the year 2012-13.

Steps taken/being taken to increase the profit margins :

i) PDIL is focusing on the diversified fields of Oil, Gas & Refinery sector. PDIL is resorting to strategic bidding through tender route and has been successful in many of the tenders.

ii) PDIL is focusing to diversify into Infrastructure Sector. PDIL has applied to Ministry of Urban Development for notifying PDIL under Section 126(2) of GFR to enable PDIL to bid for civil works for any ministry, Department and State Government Organizations. DoF shall facilitate such empanelment.

iii) PDIL is focusing on its inspection business and plans to double its business in this area.

iv) In the core sector of Fertilizers, Amendment to NIP 2012 has been notified recently and 11 Fertilizer companies shown their interest for setting up Ammonia/Urea Plants. PDIL is hopeful of securing business on clearance of few of the proposals.

RECOMMENDATION NO.10

The Committee are happy to note that the Department has taken initiatives to encourage joint ventures with the resource rich countries with the buy-back arrangements and to enter into long term agreement for supply of fertilizers and fertilizer inputs to India This is being done to fulfil the need of the fertilizes industries whose dependency on import at present is to the extent of 25% of our requirement of Urea, 90% in case of Phosphates, either as raw material or finished fertilizers (DAP/MAP/TSP) and 100% in case of Potash. The Committee also note that the Department is also working with the goal of having access to / acquisition of fertilizer raw material abroad. The Department has undertaken Joint Ventures (JVs) abroad with 6 Countries (1 Country in Urea Sector and 5 Countries in P&K Sector) in the previous years. Out of these, only 2 JVs viz., Oman India Fertilizer Co., Oman in Urea sector and ICS Senegal, Senegal in P&K Sector are running successfully. The Committee are of the view that since India has near total dependency in P&K fertilizers, the Department, being the nodal

authority, should make vigorous efforts to set up JVs abroad and acquire fertilizer raw materials abroad as also recommended by the Committee in its earlier reports. The Committee hope that as a result of these efforts adequate quantity of phosphatic fertilisers would be available to the farmers in the country. The Committee would like to be apprised of the progress made in this regard.

REPLY OF THE GOVERNMENT

Joint Ventures abroad

India's dependency on import at present is to the extent of 25% of our requirement of Urea, 90% in case of Phosphates, either as raw material or finished fertilizers (DAP/MAP/TSP) and 100% in case of Potash. The Government has been encouraging Indian Companies to establish Joint Ventures abroad in Countries which are rich in fertilizer resources for production facilities with buy back arrangements and to enter into long term agreement for supply of fertilizers and fertilizer inputs to India. Further, the Department is also working with the goal of having access to acquisition of the fertilizer raw materials abroad.

Joint Ventures Projects

During the year 2014-15, no joint venture with any country was finalized. However, during the said year a number of major developments took place with the following Countries:-

Iran: A Urea/Ammonia Joint venture project with RCF and GNFC as Indian entities has been proposed to be set up in Iran. Iranian Government has indicated gas price of $ 2.9/MMBTU for the project which is cheaper than the price prevailing in Indian market. For identification of Iranian partners for the joint venture and location of plant for the project, SBI Cap has been appointed as consultant who is expected to give its report in 4 months. After receipt of the report from SBI Cap, further action to negotiate gas supply agreement and MOU with the Iranian partners would be taken. The annual Urea production from the joint venture is expected to be 1.3 million MT which would be imported to India. On 11.06.2014, a meeting was taken by Hon'ble Minister for Chemicals and Fertilizers to review the progress and directed SBI Cap to submit the report early. After receipt of the report from SBI Cap, further action to negotiate gas supply agreement and MOU with the Iranian partners would be taken. The annual Urea production from the Joint venture is expected to be 1.3 million MT which would be imported in India. Meanwhile GSFC has also been included in the Indian consortium. Hon'ble Minister (C&F) has desired all parties to put up best efforts so that the project could commence by January 2015. Hon'ble Minister (C&F) has also written to the Iranian Oil Minister highlighting the issue of gas price and its availability for this project. He has also requested for according national treatment to this project at par with domestic projects.

Russia: In December 2013, a communication from EOI in Moscow has been received about the offer of 30% stake in the fertilizer project being undertaken by ACRON to develop the Talitsky Potassium-Magnesium deposit in Perm, Russia. As per the communication, Vnesheconombank,

a major Russian owned bank, has taken a 25% stake in the Talitsky project and that China has shown much interest and in investing in Talitsky but Russia would prefer India as a partner and the terms and conditions offered to India would be identical to those given to Vnesheconombank when it acquired its stake. From Indian side, NMDC has confirmed its firm interest in the project and has now sent a draft Memorandum of Understanding (MOU) of exclusivity for initiating comprehensive due diligence. The MOU has been sent to EOI, Russia for necessary further action on Russian side. Indian Ambassador to Russia has been requested to follow up with the Russian side for signing of MoU between NMDC & ACRON. Further, due diligence activity for the project is to be initiated by the consortium members. In the Sub group meeting on fertilizers between India and Russia held on 08.10.2014, the outstanding issues were discussed and it was decided to send a delegation of the Indian consortium to Russia in early November, 2014 to finalize the MoU. A team of representatives from RCF, NMDC, NFL and M/o Steel visited Russia in first week of December 2014 and a MoU between ACRON and Indian consortium has been signed on 11th December, 2014 during the visit of Russian President.

Oman: Department of Fertilizers had, vide letter dated 19th May 2014 agreed to release the payments to OMIFCO with an increase of USD 44.6 Per MT for the Urea being supplied by the Company to the Government of India from January 2014 onwards subject to the settlement of any differences in the prices that may arise, as a result of the studies being conducted by PDIL, consequent to amendments in the Gas Supply Agreement, as agreed by Government of India. A high level delegation led by Secretary (F) visited Oman during 28-29 April 2014 to discuss the issues of (a) extension of present terms of UOTA for a further period of 5 years beyond 2015, on the same terms and conditions; (b) to maintain the existing gas price escalation formula; and (c) allocation of additional gas to OMIFCO for revamp/creation of new ammonia/Urea capacities.

Ghana: For the proposed Ammonia/Urea JV in Ghana, an MOU was signed on 6th July 2010 at the Government level between the two Countries, followed by several visits of Indian delegation to Ghana to discuss issues relating to finalisation of draft JV agreement and price of Gas. It has now been informed that Gas being offered by Ghanaian authorities for the project is not available. Therefore, project would be perused after some time.

Togo: For cooperation with Togo, a proposal was sent to Togolese Government for cooperation in production of Phosphate and Phosphoric fertilizers by way of Joint Venture project between India and Togolese entities in July, 2012. Togolese responded by sending a revised proposal and also included construction of railway Lome-Cinkasse and installation of agronomic research institute. The same was sent back, through MEA, to Togolese Government with our comments in August 2012. Secretary (F) led Indian delegation visited Togo in June 2013 wherein it was decided that Indian side would send details of the information and

documents required for preparation of a detailed Indian proposal for development of carbonated phosphate and thereafter a Togolese delegation would visit India along with information and documents sought by the Indian side for firming up the proposal. As agreed, a questionnaire seeking required details was sent to Togolese side on 01.07.2013 and thereafter, a letter dated 24th July 2013 from MOS (I/C) for Chemicals & Fertilizers was also sent to Minister of Transport, Mines and Energy, Togo inviting Togolese delegation along with information/details as requested by Indian side. The response of Government of Togo on these issues is still awaited.

Canada: A delegation of M/s ENCANTO visited Department of Fertilizers on 11th & 12th June 2013 and met Secretary (F). On these dates, meetings were also held with RCF led consortium. As outcome of these meetings, a draft of Principle terms and purchase and sales agreement was initiated between RCF (on behalf of Indian consortium) and M/s ENCANTO to finalize the Draft Off-Take Agreement. An aggregate off-take of 1.8 million tonne per annum MOP has been mentioned in the Draft Agreement. A copy of the draft agreement has been sent by RCF to Indian consortium to members for their review and necessary action. In this connection, a meeting held on 2nd July 2013 under the Chairmanship of Secretary (F) with the RCF led consortium to discuss the draft agreement initiated by RCF (on behalf of consortium) and M/s ENCANTO. The members of the consortium were requested to intimate the details of commitment of off-take quantity. However, due to lack of interest from Indian consortium members and international potash market scenario, issue has been kept on hold for some time.

Belarus: On 20th May 2013, the Hon'ble speaker of Lok Sabha visited Belarus and a meeting was held with the President of Belarus. During the meeting, the President of Belarus expressed interest in India's participation in the privatization of the potash industry in Belarus. Further, Joint Secretary (Eurasia), MEA, vide D.O. letter dated 30.05.2013, has suggested to invite a delegation from Belarus to discuss these matters. The Department of Fertilizers conveyed to Embassy of India at Minsk that Indian side is ready to receive a delegation from Belarus during the week starting on 10th June 2013 to discuss issues related with Potash Fertilizers but the response from Belarus is still awaited.

Tunisia and Jordan:- On the invitation of Mr. Mehdi Jomaa, Tunisian Minister of Industry a delegation led by Hon'ble MOS (I/C) (C&F) alongwith Secretary (F) and technical team from Fertilizers companies namely M/s Coromandel and M/s GSFC visited Tunisia during 11th -12th July, 2013 to jointly inaugurate the TIFERT plant, an important Tunisia-India Joint Venture and to explore further cooperation and the potential of new joint projects in the field of industrial phosphate of fertilizers. Before visiting Tunisia, Hon'ble MOS(I/C) (C&F) along with Secretary(F) and representative of fertilizer PSU M/s RCF, visited Jordan during 09th-10th July, 2013 on the invitation received from the Chairman of the Board of Jordan Phosphate Mining Company, a Govt. of Jordan company to visit Jordan with the purpose to :-

(i) review the market conditions in India and the ways to improve them for the benefit of both sides I.e. JPMC and the Govt. of India

(ii) Explore the potential of new joint venture projects leading to establishment of new Industrial phosphate of fertilizers for export.

(iii) Presenting the future activities of JPMC and the infrastructural projects that would be needed to have them materialize.

As an outcome to the India delegation visit to Jordan, a draft EOI is submitted by RCF for the proposed Joint Venture with JPMC and JAFCO and the same is under process.

IRAQ : On the request of Ministry of Petroleum and Natural Gas, AS &FA of Department of Fertilizers accompanied the delegation led by Minister (PNG) to attend the 17th Indian-Iraq Joint Commission Meeting (JCM) held at Baghdad during 7-8th July, 2013 to explore the possibilities of Joint Venture in Fertilizer in Iraq. During the discussions the Indian side expressed interest in (i) setting up ofa JV project in Al-Qaim/Al-Anbar area for establishing a Urea and Phosphate unit ; and (ii) import of sulphur from Iraq. Meanwhile an Inter-Ministerial Meeting was held under the Chairmanship of Secretary (East), MEA to review the actions taken subsequent to the 17th India-Iraq Joint Commission Meeting and in preparation for the forthcoming visit of Prime Minister of Iraq to India on 23rd August, 2013. In the meeting DOF was asked to share Draft Letter of Interest (LOI) and Confidentiality Agreement to establish proposed Urea Plant and Phosphate Fertilizer Unit as JV project in Al-Qaim/Al-Anbar area of Iraq. The same has been done and forwarded to MEA and Ambassador of India to Iraq on 31.7.2013.

CHAPTER-III

OBSERVATIONS/RECOMMENDATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE GOVERNMENT'S REPLY

- NIL -

CHAPTER-IV

OBSERVATIONS/RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF THE GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

RECOMMENDATION NO. 4

The Committee observe from the notes on demands for grants (2014-15) that the non-plan allocation for the financial years 2012-13 and 2013-14 are Rs. 65,628.86 crore (AE) and Rs 68,000 crore (RE), respectively. The budget allocation against non plan expenditure for the year 2014-15 is Rs 73,000 crore (BE). Thus, while the non-plan expenditure of the Department has remained almost stagnant over the years from 2012-13 to 2013-14, the same has been increased by about Rs 5000 crore for the year 2014-2015 over the previous year allocation. The Committee also note that the non plan expenditure of the Department primarily relates to subsidy on fertilizers. While budget allocation for subsidy on imported fertilizers for the year 2014-2015 is Rs. 12300 crore, the same on decontrolled fertilizers is Rs. 24670.32 crore for payment to manufacturers/agencies for concessional sale of decontrolled fertilizers and subsidy on indigenous fertilizers is Rs. 36,000 crore. The subsidy on fertilizers is granted by the Government with a view to protect the farmers from adverse impact of price volatility in the international market and other negative factors. While the country is deficient in decontrolled fertilizers which is largely being imported, the country has achieved 75% self sufficiency in the production of urea. The Committee are of the view that it is essential that the production of indigenous fertilizers at low cost may be augmented in the country by increasing the efficiency and reducing the operational and administrative costs. The Committee feel that as a result of these measures the heavy outgo of expenditure on account of subsidy could be controlled/ reduced. In view of the foregoing, the Committee, therefore, recommend that the Department should work out an effective mechanism to reduce or restrict the non plan expenditure of the Department. The Committee would like the Department to address this issue and intimate the measures taken by them in this regard.

REPLY OF THE GOVERNMENT

Nutrient Based Subsidy (NBS) Scheme has been under implementation since 1.4.2010, under which subsidy is fixed on annual basis based on nutrient content taking into account international and domestic prices of P&K fertilizers, exchange rate inventory level etc. The prices of P&K fertilizer are fixed by fertilizer companies. After decontrol of prices and subsidy being fixed, variation in the international prices of P&K fertilizers and devaluation in exchange rate has affected the domestic prices of these fertilizers. After implementation of NBS Scheme the domestic prices of P&K fertilizers have increased and the subsidy rates remained more or

less static or less than the pre NBS regime. This has resulted in reduction in subsidy burden on P&K fertilizers.

Under NBS Policy the Government does not interfere in the functioning of fertilizer companies. The premise of the NBS Policy is that it will encourage competition amongst the fertilizer companies both indigenous and imported and in different sectors and the market forces will ensure stability in the prices. Hence, the companies themselves work towards increasing efficiency and reducing the operational and administrative cost to remain competitive in the market. This has also ensures reasonable price of P&K fertilizers in the country and for the farmers.

At present, the non-plan expenditure is in line with the consumption of P&K fertilizers in the country. The only way to reduce non-plan subsidy would be to reduce NBS rates and if NBS Rates are reduced in order to reduce non-plan expenditure, the prices of P&K fertilizers will go up and will affect consumption of P&K fertilizers and ultimately the balanced fertilization of soil.

Hence, we may propose to the committee that the Department may continue with the existing practice to encourage competition amongst the fertilizer companies and let the market forces determine the prices of P&K fertilizers.

A new urea policy is being formulated in which issues relating to energy efficiency to reduce the subsidy burden are being considered.

Comments of the Committee

(Please see Para No.13 of Chapter- I of the Report)

CHAPTER-V

OBSERVATIONS/RECOMMENDATIONS IN RESPECT OF WHICH FINAL REPLIES OF THE GOVERNMENT ARE STILL AWAITED

RECOMMENDATION NO.1

The Committee note that presently India is 3rd largest fertiliser producer in the world with installed capacity of 127.67 lakh MT of nitrogen and 62.08 lakh MT of phosphatic nutrient during the year 2013-14. However, the indigenous production of fertilizers has not increased to meet the growing requirement largely due to raw materials / inputs limitation and partially due to lack of new investments in urea sector in the last decade. India is completely deficient in potassic resources and has to entirely depend upon import for meeting the requirement of potash (MOP) for the Indian agriculture. The country is also deficient in phosphatic resources with more than 90% requirement of the country being met through direct import of finished phosphatic fertilizers or phosphatic raw materials/intermediates for indigenous production of phosphatic fertilizers. At present, there are 30 urea units in our country. Out of these 30 urea units, 27 urea units use Natural Gas (using either domestic gas/LNG or both) as feedstock and fuel and the remaining three urea units use Naphtha as feedstock and fuel. Three Naphtha units viz., SPIC-Tuticorin, MFL-Manali and MCFL-Mangalore are in process for conversion from Naphtha to Gas feedstock.

The Committee were informed that the availability of gas is one of the major limiting factor to the growth of urea industry in the country. Presently, the availability of domestic natural gas is not even sufficient to meet the demand of existing gas based urea units in the country. Due to shortage of domestic gas, many FO/LSHS/Naphtha based urea plants which have converted to gas recently, are meeting its requirement of gas by using costly RLNG. The total requirement of daily gas is 46 mmscmd out of which 25.413 mmscmd is met through domestic gas and 20.587 mmscmd gas is met through Regassified Liquefied Natural Gas (RLNG) in September, 2014. The Empowered Group of ministers (EGoM) on Gas pricing and Commercial Utilization of gas in their meeting held on 23.08.2013 decided to maintain the supplies of domestic gas to the Fertilizer sector at 31.5 mmscmd level and give the sector first priority in meeting the requirements of any shortfall below the level of 31.5 mmscmd from any additional production of NELP gas. The Committee are distressed to note that PSUs like FACT, Kochi has become a loss making unit since it has converted its plant to use gas as the feed stock but domestic gas is not being supplied to the plant and it has to get very high cost RLNG for the plant. At that rate, it is not economical to produce and sell and meet the margins within the subsidy that is available.

According to the Department, excessive emphasis given on production of urea using natural gas has impeded the goal of India to become self-sufficient in the fertilizers sector because of lack of long term availability of natural gas in the country for urea plants, high cost

of imported RLNG prices and volatility in prices. If Naphtha is used for production of urea as an alternative which is available as raw material in the country and if pricing is kept at Rs. 30000 per MT, then urea can be produced at Rs. 20000 per MT. However, considerable quantity of domestic natural gas is given at subsidised/controlled price for gas-based units but the same is not done for Naphtha FO/LSHS used by non-gas based units. Further, while pricing of natural gas is done based on its thermal energy (MMBTU), the same is not done in the pricing of Naphtha/FO/LSHS which has resulted in higher cost of production of urea using Naphtha/FO/LSHS. The Department has claimed that if the same pricing principle is followed for Naphtha/FO/LSHS, the non-gas based urea units would not have been so cost inefficient and sufficient additional capacity could have been installed to make country self sufficient in urea sector.

In view of the forgoing, the Committee recommend that the Department should play a proactive role and take up the matter vigorously with the Ministry of Petroleum and Natural Gas ensuring that adequate quantity of natural gas is supplied with out any hindrance to all the existing gas based urea units. The Committee also recommend that the Department should also ensure gas connectivity and supply of domestic gas to three Naphtha units viz., SPIC-Tuticorin, MFL-Manali and MCFL-Mangalore which are in process for conversion from Naphtha to Gas feedstock. The Committee further recommend that the Department should also impress upon the Ministry of Petroleum and Natural Gas to work out a pricing mechanism for Naphtha/FO/LSHS based units so that non- gas based units could become cost efficient. The Committee would like to be apprised of the progress made in this regard.

REPLY OF THE GOVERNMENT

To ensure the adequate supply of domestic gas to the urea manufacturing units, this Department regularly takes up the matter with MoP&NG.

Three urea units viz., MFL-Manali, MCFL- Mangalore and SPIC-Tuticorin have started the process of conversion from Naphtha based units to Gas based units. However, the conversion of these three units is held up due to delay in commissioning of the gas pipeline connectivity. MFL-Manali has already signed Heads of Agreement with IOCL for supply of natural gas from its proposed LNG terminal at Ennore, which is likely to get commissioned by last quarter of 2017. As per original plan, MCFL was supposed to get LNG from petronet LNG-terminal at Kochi through a gas pipeline planned by GAIL from Kochi to Mangalore. But the laying of pipeline is facing stiff resistance from farmers and may take 24 months or more to lay approximately 350 kms of the pipeline in Kerala. GAIL is also exploring the option of laying a spurline from Dabhol-Bengaluru pipeline connecting to Mangalore from Chitradurga as progress on Kochi-Mangalore pipeline is severely dented due to non-availability of Right of Way (RoW) for lands under State of Kerala. A dedicated pipeline may also be laid from Ramnad

to SPIC, Tuticorin by GAIL for which no permission is required from PNGRB or after finalisation of Ennore-Tuticorin pipeline by PNGRB, the successful bidder may take up the Ramnad-Tuticorin line on priority basis. Subsequent to connectivity of gas pipeline, the three companies may consider tying up imported RLNG to meet their requirement since as per the projections on availability of domestic gas, the same is not going to increase substantially in the coming years. As regards, domestic gas, the same shall be allocated as per the prevailing Gas Utilisation Policy as and when pipeline connectivity is established and the plants are in a position to consume gas.

So far as pricing mechanism for Naphtha is concerned, the matter is under discussion with MoP&NG.

Comments of the Committee

(Please see Para No. 7 of Chapter- I of the Report)

New Delhi;
14, July 2015
23, Ashadha 1937 (Saka)

(ANAND RAO ADSUL)
Chairperson
Standing Committee on
Chemicals and Fertilizers

APPENDIX-I

MINUTES

MINUTES OF THE SEVENTEENTH SITTING OF THE STANDING COMMITTEE ON CHEMICALS & FERTILIZERS (2014-15)

The Committee sat on Tuesday, the 16 June, 2015 from 1500 hrs. to 1600 hrs. in Room No. 139, Parliament House Annexe, New Delhi.

Shri Anandrao Adsul - Chairperson

Members

Lok Sabha

2. Shri Idris Ali
3. Smt. Anju Bala
4. Shri B.N. Chandrappa
5. Shri Shankar Prasad Datta
6. Smt. Veena Devi
7. Shri R. Dhruvanarayana
8. Shri Satish Kumar Gautam
9. Shri Chhedi Paswan
10. Shri Chandu Lal Sahu
11. Dr. Krishan Pratap Singh
12. Smt. Rekha Arim Verma
13. Shri Innocent

Rajya Sabha

14. Shri Narayan Lal Panchariya
15. Shri Palvai Govardhan Reddy

Secretariat

1.	Smt. Rashmi Jain	-	Joint Secretary
2.	Shri U.B.S. Negi	-	Director
3.	Shri A.K. Srivastava	-	Additional Director

2. At the outset, the Hon'ble Chairperson welcomed the members of the Committee.

3. The Committee thereafter took up for consideration the following draft Reports:

a) Action Taken Reports on Demands for Grants (2014-15) of the Ministry of Chemicals and Fertilizers (Department of Fertilizers);

b) **********

c) **********

4. The draft Reports relating to the Department of Fertilizers, Department of Pharmaceuticals and Department of Chemicals and Petrochemicals were adopted by the Committee without any amendment.

5. The Committee authorised the Chairman to make consequential changes, if any, arising out of the factual verification of the Reports by the Department of Fertilizers, Department of Chemicals and Petrochemicals and Department of Pharmaceuticals of the Ministry of Chemicals and Fertilizers and present the same to both the Houses of Parliament.

6. The Committee then decided to hold its next meeting on 25th June, 2015 for briefing on the subject " Functioning of National Institute of Pharmaceutical Education and Research (NIPER)" by the Ministry of Chemicals and Fertilizers (Department of Pharmaceuticals).

The Committee then adjourned.

****** Matters not related to this Report.*

Appendix-II

(*Vide* Para 3 of the Introduction)

ANALYSIS OF ACTION TAKEN BY THE GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE THIRD REPORT (SIXTEENTH LOK SABHA) OF THE STANDING COMMITTEE ON CHEMICALS AND FERTILIZERS (2014-15) ON DEMANDS FOR GRANTS (2014-15) OF THE MINISTRY OF CHEMICALS & FERTILIZERS (DEPARTMENT OF FERTILIZERS)

I	Total No. of Recommendations	10
II	Observations / Recommendations which have been accepted by the Government: (*Vide* Recommendation Nos. 2, 3, 5, 6, 7, 8, 9 and 10)	08
	Percentage of Total	80%
III	Observations / Recommendations which the Committee do not desire to pursue in view of the Government's reply: (*Vide* Recommendation No. Nil)	0
	Percentage of Total	0%
IV	Observations / Recommendations in respect of which reply of the Government have not been accepted by the Committee and which require reiteration:- (*Vide* Recommendation No. 4)	01
	Percentage of Total	10%
V	Observations / Recommendations in respect of which replies of the Government are still awaited:- (*Vide* Recommendation No. 1)	01
	Percentage of Total	10%